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How Farmer
Cooperatives
Contribute to
Agricultural
Well-Being

INFORMATION 37
BY JOSEPH G. KNAPP

U. S. DEPARTMENT OF AGRICULTURE



FARMER COOPERATIVE SERVICE

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U. S. DEPARTMENT OF AGRICULTURE
WASHINGTON 25, D. C.

Joseph G. Knapp, Administrator

The Farmer Cooperative Service conducts research studies and service activities of assistance to farmers in connection with cooperatives engaged in marketing farm products, purchasing farm supplies, and supplying business services. The work of the Service relates to problems of management, organization, policies, merchandising, product quality, costs, efficiency, financing, and membership.

The Service publishes the results of such studies; confers and advises with officials of farmer cooperatives; and works with educational agencies, cooperatives, and others in the dissemination of information relating to cooperative principles and practices.

April 1963

How Farmer Cooperatives Contribute to Agricultural Well-Being

by Joseph G. Knapp

Administrator

Farmer Cooperative Service

Opponents of agricultural cooperatives have endeavored to lodge in the minds of the public by all the arts of propaganda that cooperatives are not a normal part of the American system of free enterprise. Such propaganda often falls on fertile ground because the cooperative side of the story is not adequately known.

In fact, supporters of cooperatives have too frequently permitted themselves to be placed on the defensive. Thus, they spend their energies in meeting sniping attacks, when what is needed is a broad constructive presentation of the great contributions which American cooperatives make to agricultural well-being and the preservation of the kind of America that we call the free enterprise system.

Those of us who believe in cooperatives must be able to persuade others that our belief in cooperatives is based

on sound thinking for the common good. On the basis of some 30 years of experience working with farmer cooperatives of all types in all parts of America I maintain that there is no influence more healthy to the preservation of our American heritage than agricultural cooperatives.

Safeguard the American Heritage

What is the American heritage? I believe it is a deep belief in human freedom and fair play, a tolerance for the opinions of others, a willingness to work together for common objectives, a respect for private property and the rights of others. These thoughts are beautifully expressed in the famous passage of our Declaration of Independence, "We hold these truths to be self-evident, that all men are created equal, that they are endowed by their Creator with inalienable rights, that among these are life, liberty and the pursuit of happiness."

I assert with confidence that farmer cooperatives contribute to the preservation of an America which cherishes these truths.

Farmer cooperatives contribute to the material and spiritual prosperity of agriculture as well as to the total national economy.

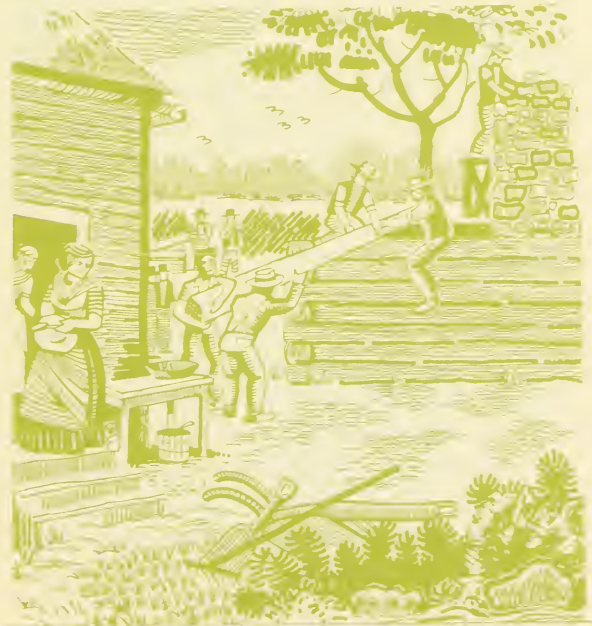
Farmer cooperatives, both large and small, are simply organizations of

individual farmers which carry on essential functions needed by our farmers and by our society as a whole.

Farmer cooperatives enjoy no special privileges or favors denied by law to any other group or organization which may elect to accept the same restrictions that are self-imposed by the members of cooperatives.

On the other hand, I do not assert that cooperatives are perfect -- for they are man-made institutions. They are like all democratic organizations -- they have their strengths and weaknesses.

All that I am saying is that cooperatives should be given a fair deal at the bar of public opinion. If they are -- and the extent to which they



These folks of the old frontier build a home together.

are depends upon the ability of cooperatives to present their position faithfully and effectively -- I have no doubt of the long-time future of these enterprises.

The charge that cooperatives do not pay taxes is a smoke screen to confuse the unwary. It is a hard charge to combat for it sets up a prejudice that can only be met by a knowledge of the true facts. And it goes without saying that no one respects those who do not pay their taxes.

The fact that cooperatives pay taxes on a different basis than other corporate businesses -- because they are organized in accordance with law on different principles -- is not admitted by the opponents of cooperatives. However, the Congress has recognized this difference and has adopted the rule that only a single tax, currently collected, should be levied on cooperative income. If cooperative opponents admitted the economic soundness of this rule, their whole propaganda edifice would fall.

There is only one thing that will satisfy the opponents of cooperatives -- the emasculation of cooperatives by forcing them to operate like all other corporations. If they could accomplish this end -- no one would be the gainer, and farmers and the general public would be the losers.

It would be a sad day in America if everyone had to operate a business

in exactly the same way -- if people themselves couldn't do things cooperatively which they wish to have done. Cooperatives ask no special favors that they deny to others and they see no reason why they should be denied by law the right not to make a profit if they prefer to do business on a non-profit-making basis.

Let us turn now more directly to the question -- how do farmer cooperatives contribute to agricultural well-being?

Provide Efficient Organization

The object of a cooperative marketing or purchasing association is to help farmers improve the efficiency of their farming operations. Farmers join cooperatives in order to get the kinds of supplies they want at lowest possible prices or to get the best possible returns in marketing their products.

The logic of cooperative operations lies in the fact that many can do together what one could not do for himself. Cooperatives simply enable farmers to get for themselves the advantages of large-scale organizations. Without cooperatives farmers would be dependent upon the services otherwise available. If they were not satisfied they would have little recourse -- unless we assume perfect competition which always assures them of satisfactory service. They would have no

way of injecting competition into the market as they now do.

The record of the past does not indicate that farmers can rely on the perfection of the market place. Many farmers know from experience how their cooperatives have lowered distributive margins and broken many monopoly practices. They know that cooperatives in many instances have forced the competitive pace to their advantage as members -- as well as to the advantage of non-members.

The economic justification for farmer cooperatives is that they meet economic needs and save farmers' money. Farmers join and support cooperatives because it is good business for them to do so. By combining the volume of many farmers, cooperatives can economically market farm products for them or purchase their supplies on an efficient cost basis.

Cooperative marketing associations provide the type of marketing or purchasing services farmers require. These organizations are controlled and directed by the farmers themselves who know how they wish to be served. Their organizations naturally must be respectful of their wishes, for they are the bosses.

Help With Farm Management

As I have observed cooperatives over the years, I have been impressed



Cooperatives help farmers maintain efficient, well-planned farms.

with the help cooperatives have given farmers on problems of farm management. This isn't strange when one realizes how important are the off-farm services that a cooperative can provide. How well a man farms often depends upon his source of supplies and the knowledge of how to use supplies and upon his ability to sell his crops at good prices. In fact, if there are good cooperatives around from which he can get advice as well as the type of service needed a man can get a good share of his farm management job done for him and done efficiently and with reasonable cost.

Control Surplus Production

One of the recurring problems of farmers is over-production. We know that cooperatives cannot entirely solve this problem, for they do not have ability to control all of the supply of a commodity and of substitutions for the commodity.

All that a cooperative can do is administer the supply provided by its members in the market. This is a sizable service for many cooperatives have been able to, help in stabilizing markets. Moreover, when industry programs of market control are carried on by means of marketing agreements or orders, cooperatives can perform a very important role as they can effectively represent producer interests as distributors in the market.

Help Find Market Outlets

Many cooperatives have performed an invaluable service for their members in finding market outlets. Probably the most striking illustration is the case of Sunkist Growers, Inc., Los Angeles, but there are many agricultural areas that owe their place in the sun to their cooperatives' finding outlets for what they produce.

A cooperative marketing enterprise isn't like other enterprises that can leave an area when the trade dries up. The cooperative has to find market outlets or dry up itself. This gives cooperatives a tremendous incentive to find market outlets if at all possible. There is no easy way out for a cooperative.

Train for Democracy

One of the basic principles of the founders of agricultural extension work

in America was the idea of "learning by doing." In the early days great emphasis was placed on the demonstrational approach -- showing people how to do things. As Seaman A. Knapp once said, "What a man hears he may doubt, what he sees he may possibly doubt, but what he does himself he cannot doubt."

It is hard to realize how much the participation of farmers in cooperatives has given them in actual business experience. Thirty or forty years ago only a handful of farmers knew anything about purchasing farm supplies or marketing farm products.

Today there are perhaps 100,000 farmers who are members of boards of directors of cooperatives, and there are as many more who have been board members. These farmers know what the score is. They can read financial reports and understand the general facts of business life. Let's not forget that many of these directors are high school and college trained.

It seems significant to me that many of the leaders in agriculture have had experience -- as members, directors, or officers in farmer cooperatives. This experience has trained them as farmer representatives and given them an opportunity to demonstrate ability.

Cooperatives are a great educational medium in many other ways. Take, for example, membership meetings. These meetings teach farmers many things about their own businesses.

Their membership publications carry a stream of educational information out to farmers. The total number of readers of farmer cooperative periodical publications of one type or other runs into millions.

Strengthen Rural Communities

Rural sociologists have long maintained that cooperatives enrich the lives of people in rural communities by giving them a sense of belonging. When a farmer goes to town and sees his cooperative warehouse, gin, elevator and other facilities he enjoys a sense of ownership and community participation. Thus cooperatives break down the barriers between town and country, and make farmers proud of the communities in which they feel a partnership interest.



Cooperatives give farmers a place in rural communities.

On the basis of a recent study of 22 rural communities in Iowa, Professor Roy E. Wakeley of Iowa State College came to the conclusion that businessmen in rural communities where cooperatives are located could well take a good look at the total effect of these cooperatives on local business conditions. For he found that the communities well served by cooperatives increased the business opportunities of other forms of business enterprise.

Dr. Edwin G. Nourse, eminent economist, once wrote that cooperatives afford farmers a means of organization ideally suited to their industry needs. By means of cooperatives farmers can keep their individuality while getting the advantages of sound business organization. Through cooperatives small farmers can get the same advantages in marketing and purchasing as large farmers. There is no other system of organization for farmers that insures this, and helps so much to preserve the family-farm type of agriculture.

As Paul Armstrong, former General Manager of Sunkist Growers, has said: "Cooperatives enable small farmers to do business in a big way."

Act as Pace Setters

I believe that cooperatives can properly take credit for much of the

improvement in purchasing and marketing methods in agriculture. These organizations have but one basic objective -- to serve the needs of their farmer members. The interest of their members is as farmer users of the services of the cooperative and only incidentally as stockholders. The financial interest is only incidental to the achievement of the service aim.

This kind of organization -- geared to and integrated with the needs of the farmers served -- has taken the lead in many industry improvements. I might cite here the buying of farm supplies to meet farmers' specifications, the idea of open-formula feeds, fertilizers and other supplies, bulk handling of feeds, fertilizers, dairy products, citrus fruits, and other crops. The development of meat-type hogs is another good illustration -- or the emphasis on protein in wheat or staple length in cotton.

Much of the early work in grading and packing to meet consumers' needs was done by farmer cooperatives. As Wells A. Sherman stated many years ago in his book, Merchandising Fruits and Vegetables, "We may credit the cooperative movement with having reduced the number of brands which would otherwise have been on the market and with having made a few brands well known and valuable." Cooperatives also led in paying farmers in accordance with the quality of their product.

Any history of the improvement in marketing and purchasing methods in



Cooperatives help farmers improve agricultural purchasing and marketing methods.

American agriculture would need to recognize the major contributions of cooperatives -- and it should be remembered that not only farmers but consumers have benefited.

It is true that not all cooperatives are pace setters -- but it is also true that many of the pace-setting innovations in marketing farm products or purchasing farm supplies have come from them.

It should also be noted that cooperatives are pace setters in service and in lowering marketing and purchasing costs. If standards of performance by other agencies are low, cooperatives soon fill the gap. With efficient cooperatives around, competing firms must render equivalent service at reasonable cost to survive. Even the threat of possible competition from a strong cooperative may keep up service standards for farmers.

Help Stabilize Agriculture

Cooperative leaders know that the problems of agricultural stabilization cannot be handled by cooperatives alone -- but they know that farmers through their cooperatives can help in solving these problems.

In many cases cooperatives have been able to perform many services that would otherwise have led to Government programs. The farmer cooperatives have insisted on the use of the self-help principle for they believe that this makes for a virile system of farming.

Preserve Our Competitive Free Enterprise System

Probably no contribution of farmer cooperatives ranks higher than the influence that cooperatives exert toward the strengthening of our competitive free enterprise system. These cooperatives give farmers a place in the competitive free enterprise system -- and farmers are proud of that place. No one respects the rights of private property more than a farmer.

Ownership in farmer cooperatives gives farmers a substantial stake in the business organizations that serve them. Altogether some 3 million farmers have investments of well over

\$4 billion in their economic enterprises. Do farmers wish to conserve and protect these investments? Of course they do. They are as important to farmers as their investment in their farms because the cooperatives strengthen their investment in farms and equipment. We frequently hear economists maintain that people should invest in America -- that they should hold more stock in American corporations. The farmer is taking this advice to heart and because of it some 3 million farmer members of cooperatives are steadfast supporters of our free enterprise economy.

Here I would like to refer again to Paul Armstrong's talk in which he vigorously maintains that a bona fide farmers' marketing cooperative in its organization structure and operations is the very "antithesis of socialism." He holds that a more adequate way to describe a farmer cooperative would be as an "industrial democracy."

Active in War or Peace

There is one other contribution of cooperatives that I consider very important -- their use in time of war or national emergency. During World War II the Government naturally turned to cooperatives to help mobilize agriculture. A whole book could be written on how the farmer cooperatives aided in the war effort -- in conserving production supplies, in rendering an efficient marketing service, and the

like. The organization of farmers into cooperatives provides a bulwark of national defense through which agriculture can be quickly mobilized in time of great national emergency.

Let's not forget one other contribution of farmer cooperatives. They are also weapons for keeping the peace. Experience shows that where strong, voluntary cooperatives exist Communism can't get rooted.

Our farmer cooperatives are living demonstrations of the vitality of our American free enterprise system -- both at home and abroad. It is significant to me that each year hundreds of students from such countries as Iran, India, Pakistan, Indonesia, Thailand, Japan, and Korea and from countries in Africa and South America are coming to this country to see how our cooperatives work and how our methods can be adapted to their countries.

I have stressed the positive contributions of cooperatives. I realize not all cooperatives are what they should be. Many are inefficient and bring little credit to the cooperative idea. However, on the whole, the record of farmer cooperatives in this country is good, and I believe that it is continually getting better. While much remains to be done in improving cooperative methods of organization and operation I am confident that the progress made in the past will be continued in the future.

Almost 50 years ago a great

Irishman -- Sir Horace Plunkett -- espoused a program for the improvement of American farm life which President Theodore Roosevelt adopted as his own. It called for better farming, better business, and better living. The key to the program was better business and Plunkett and Roosevelt both recognized that farmer cooperatives were essential to a better business system for agriculture.

In the intervening 50 years we have had better farming and better living on American farms, and I have no doubt that the contribution of cooperatives to the strengthening of farmers as business men has been at least partly responsible.

I would like to close on a constructive note. Some time ago I wrote an article in which I asked the question -- "Have farmer cooperatives a future?" This is a big subject -- but I think you know my answer -- the need and opportunity for the future of farmer cooperatives is great. The degree of achievement will depend upon the determination of farmers to see that this farm tool is properly used and safeguarded.

Other FCS Publications Available

Co-ops Have a Place in Rural Community Progress. Information 23.

Cooperatives in the American Private Enterprise System. Information 24.

Cooperative Destiny--It's Up to You! Information 30. Joseph G. Knapp.

How Can Farmer Cooperatives Contribute to Rural Development? Information 31.

20 Years' Progress of Au Sable Forest Products Association. Information 35. Eliot W. Zimmerman and Clyde B. Markeson.

The Way Farmer Cooperative Service Works. Information 36. Beryle E. Stanton.

A copy of each of these publications may be obtained while a supply is available from --

Farmer Cooperative Service
U. S. Department of Agriculture
Washington 25, D. C.